



DIGITAL FINANCIAL INCLUSION IN INDONESIA



Financial Inclusion and Electronification Task Force
BANK INDONESIA TRANSFORMATION OFFICE



AGENDA

Digital Financial Inclusion in Indonesia

1 Indonesia at Glance

2 Digital Financial Inclusion

3 BI's Strategy

4 CHALLENGE AND GOING FORWARD



BACKGROUND

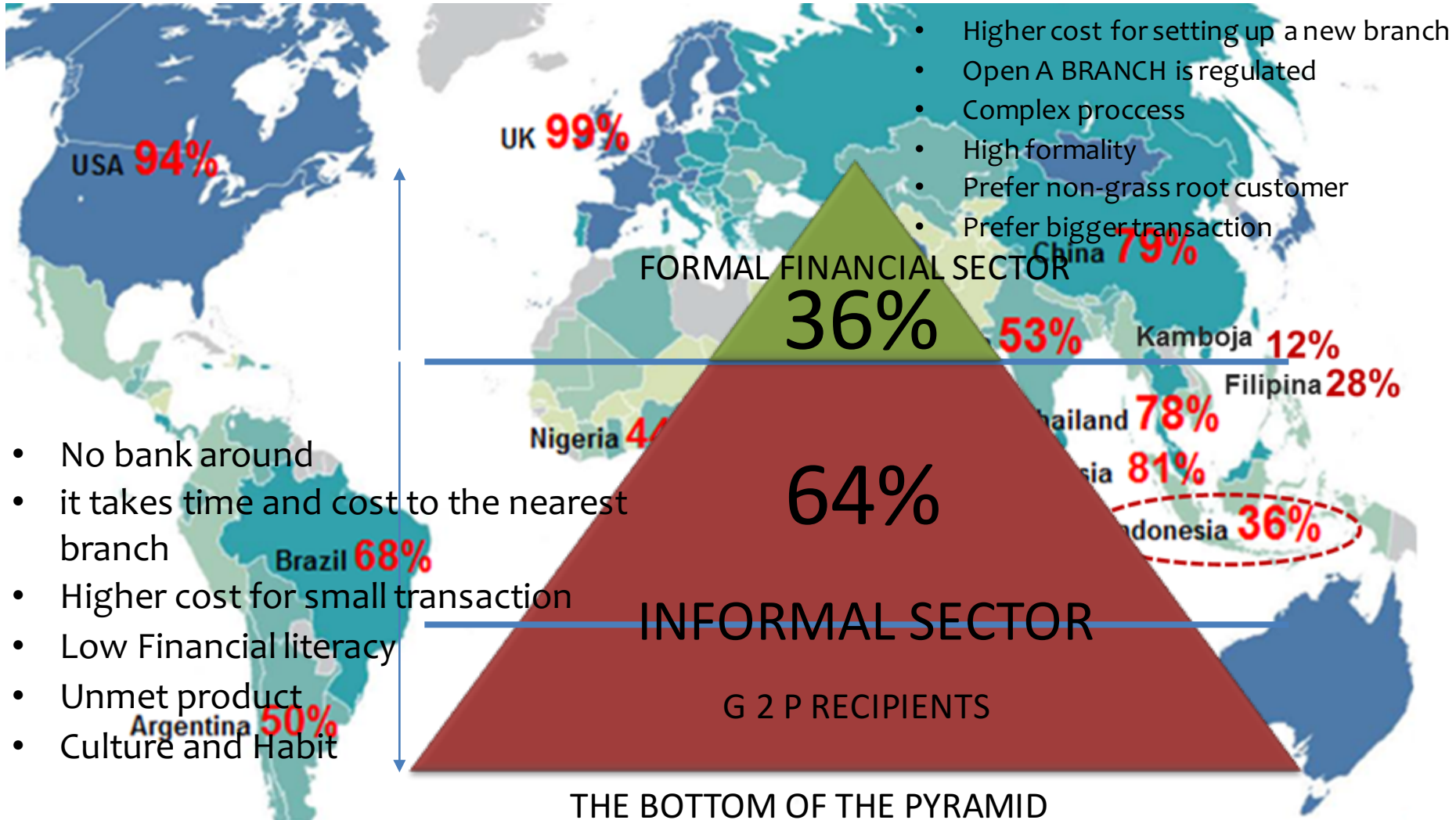
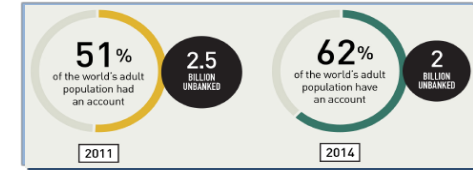
Indonesia at Glance



Indonesia at Glance

Unbanked people (Financial Inclusion Index)

Global

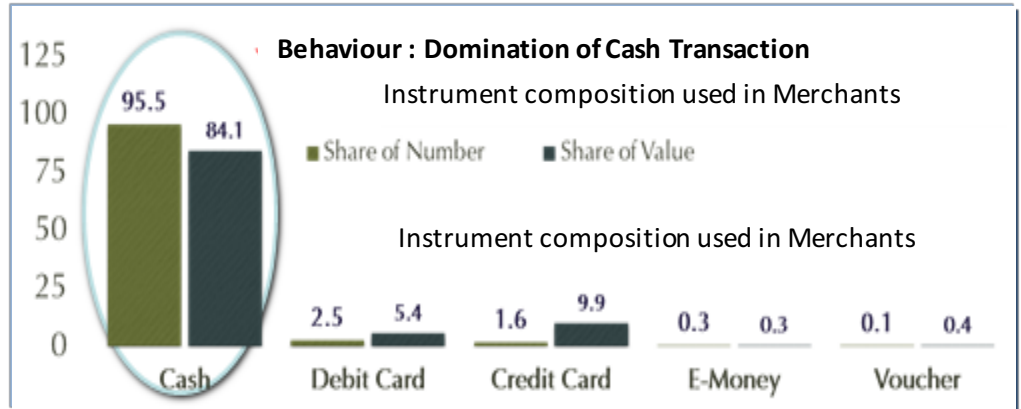
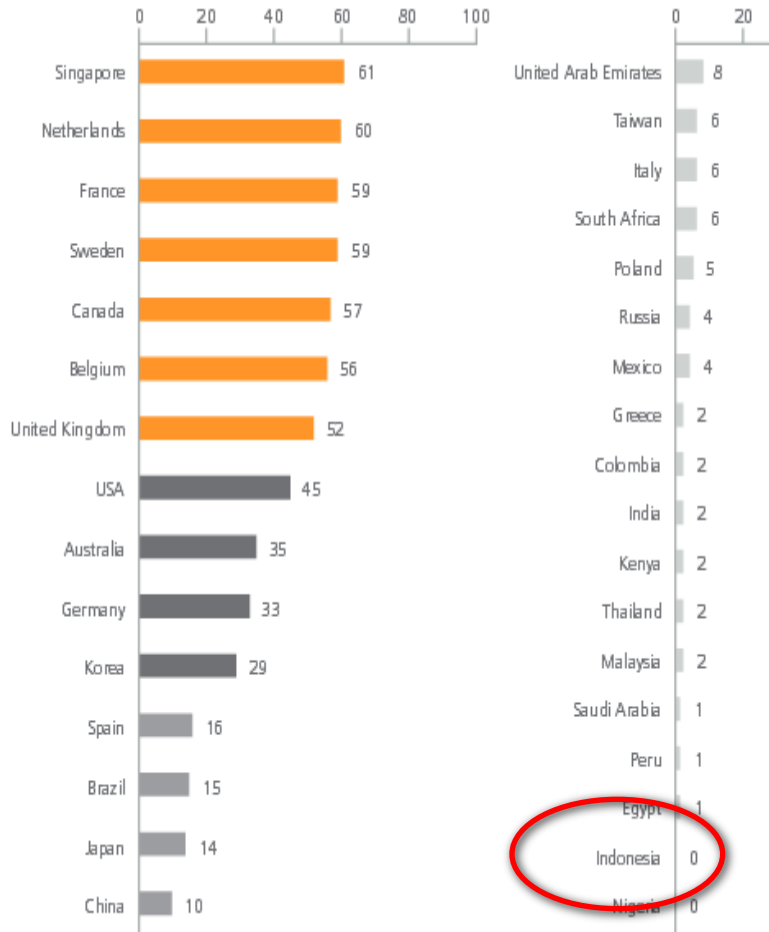




Indonesia at Glance

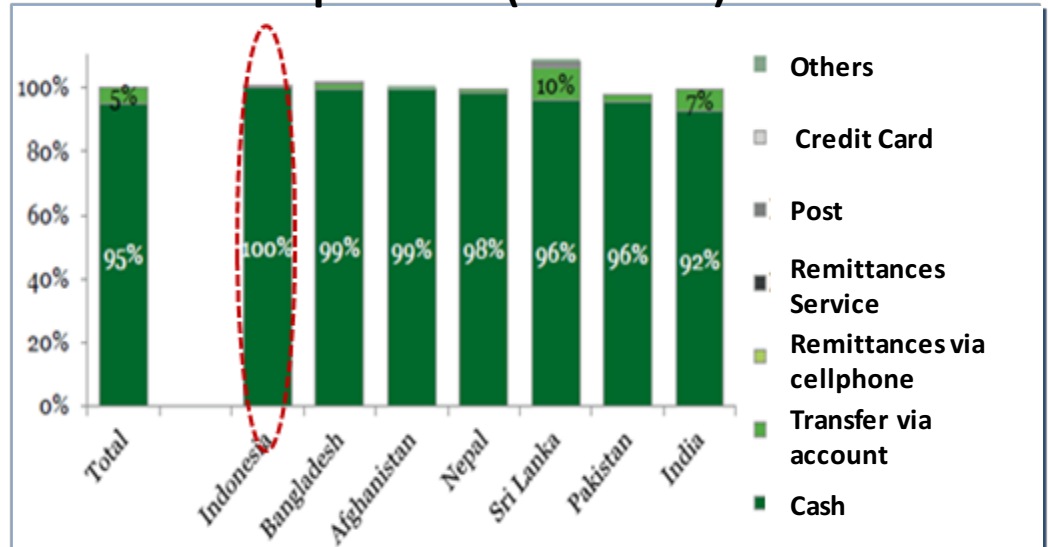
Cash Economy

Percentage Transaction using Non-cash (check & payment)



Sumber : Bank Indonesia, 2013

Channel Used using by farmers to receive the sales proceeds (rural area)



Source : Gallup, 2013

Source : MasterCard Advisors Analysis, 2013



Indonesia at Glance

Behavior : Mobile Phone & Internet User



> 310 Millions

mobile phone subscribers in Indonesia

High mobile phone penetration and almost 50% of Indonesia population is internet user.



± 13 Millions

poor household in Indonesia have mobile phone

Source: Preliminary Meeting of PKH Pilot Project, Bappenas, September 2013



2.3%

total of internet user is in Indonesia



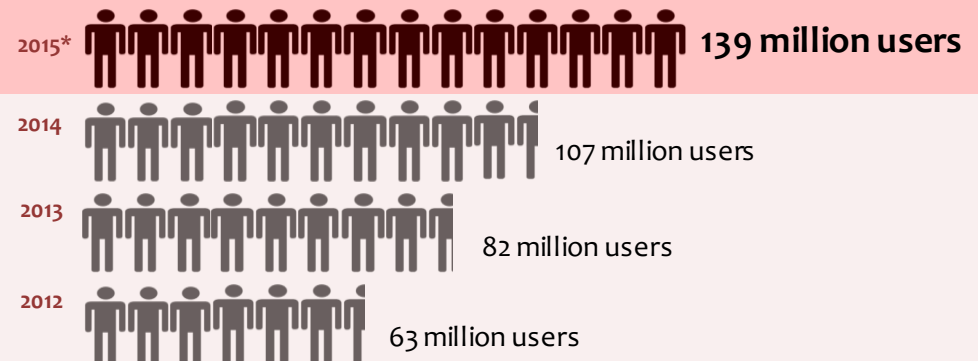
40% of internet users in Indonesia spend > 3 hours to go online

Source: Indonesia the Untold Stories, Ministry of Communication and Informatics, 2014

SURVEY of MOBILE PENETRATION:

- 51% of household of PKH recipient
- 100% of migrant workers
- 73% of farmers (Mercy Corps)

Internet User in Indonesia

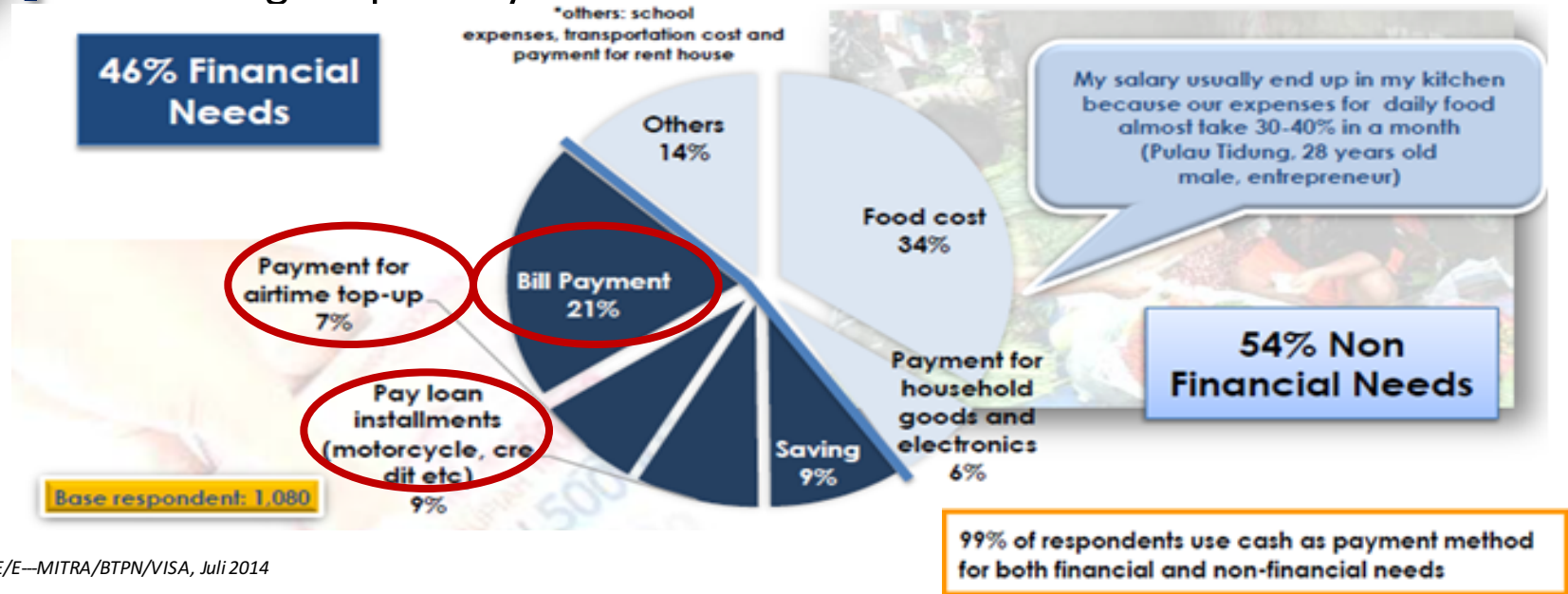


Source: Indonesia Internet Provider Association



Indonesia at Glance

Low Savings Capability



Source: NETHOPE/E—MITRA/BTPN/VISA, Juli 2014

Top 5 Financial Transactions Done by Unbanked

	Total N=6000	Male n=2367	Female n=3633	Urban n=3160	Rural n=2840	>GK n=2239	<GK n=3761
Purchase of Goods	88%	Purchase of goods for daily consumption and payment public utilities, e.g electricity, are the most popular transaction					
Utilities Payment	83%						
Airtime Payment	60%	65%	55%	68%	51%	73%	53%
P2P Transfer	58%	40%	75%	55%	55%	61%	56%
Receiving Salary	55%	72%	39%	53%	57%	54%	55%

Source: Intermedia, 2014

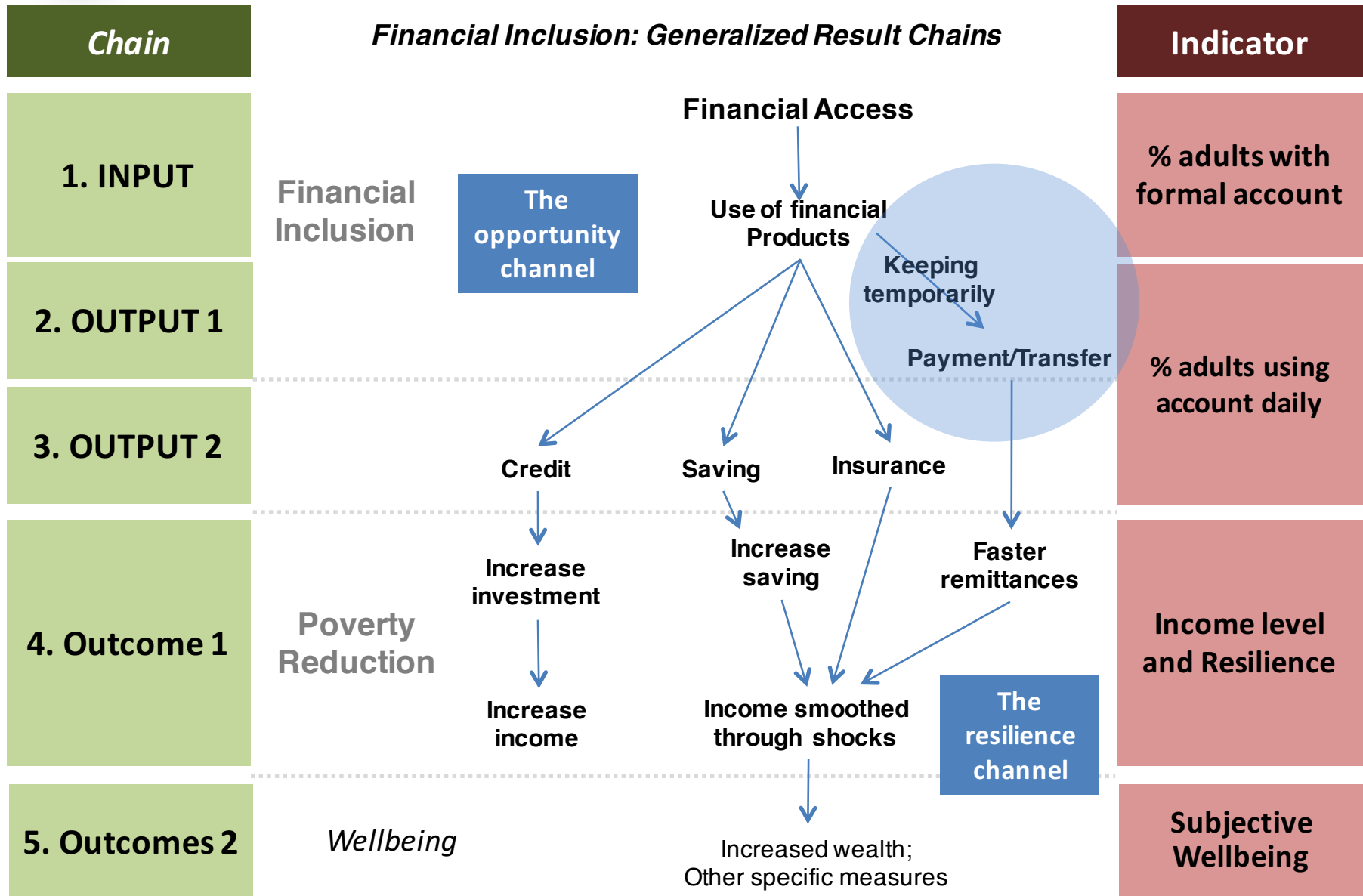


DIGITAL FINANCIAL INCLUSION



Digital Financial Inclusion

A process for better quality life to the last mile





Digital Financial Inclusion

Definition & Components

Digital financial inclusion: “digital access to and use of formal financial services by excluded and underserved populations”.

There are three key components :

Such services should be :

1. suited to customers' needs, and
2. delivered responsibly, at a cost both affordable :
 - a. to customers and
 - b. sustainable for providers.

Mobile money

Agent banking

Branchless banking

Correspondent banking



**Digital transactional
platform**

**digital
financial
services**

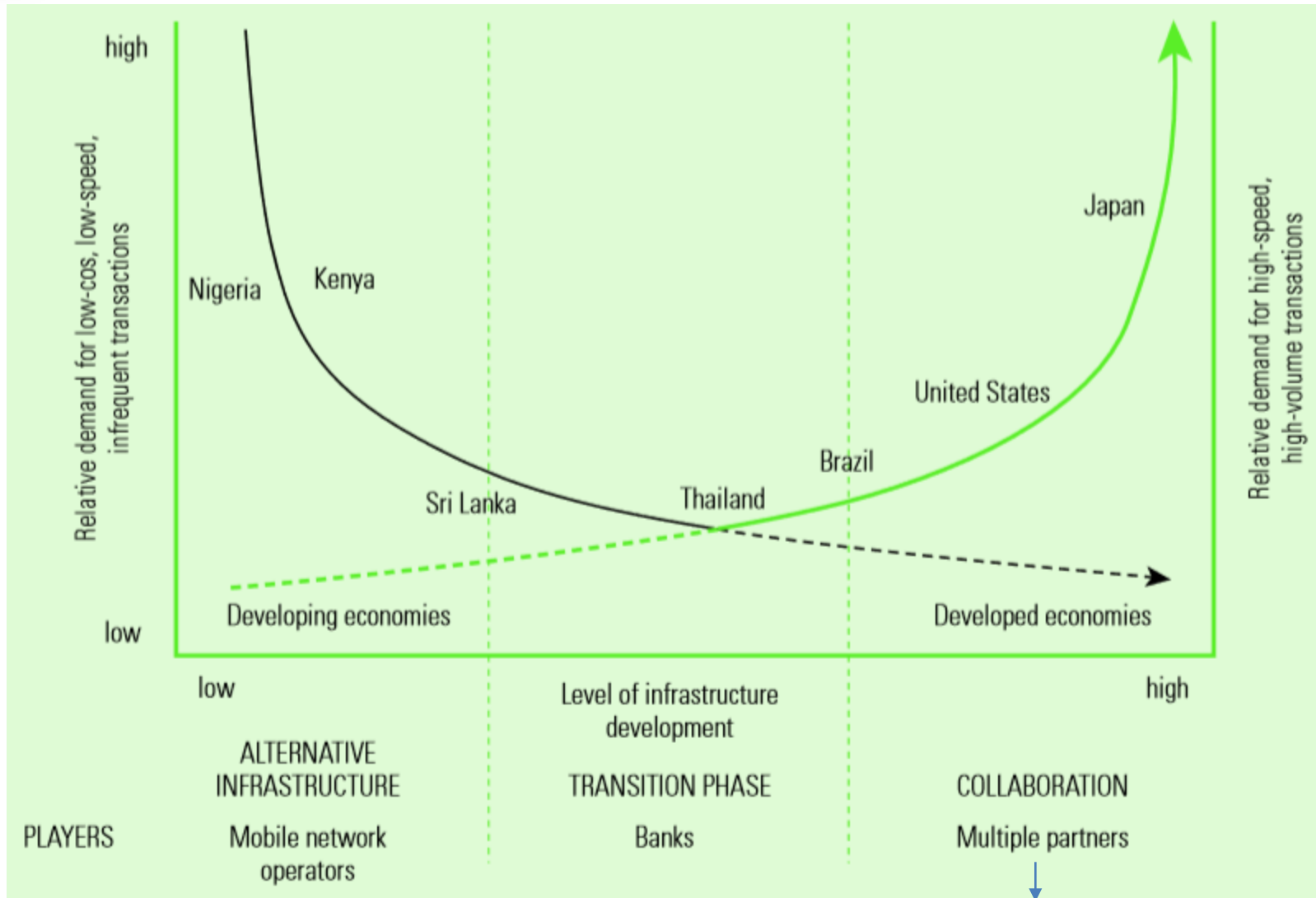
**Omni channel
Retail agents**

**Device used by
customers and agents**



Digital Financial Inclusion

Digital financial services model



Source: World Bank, 2014

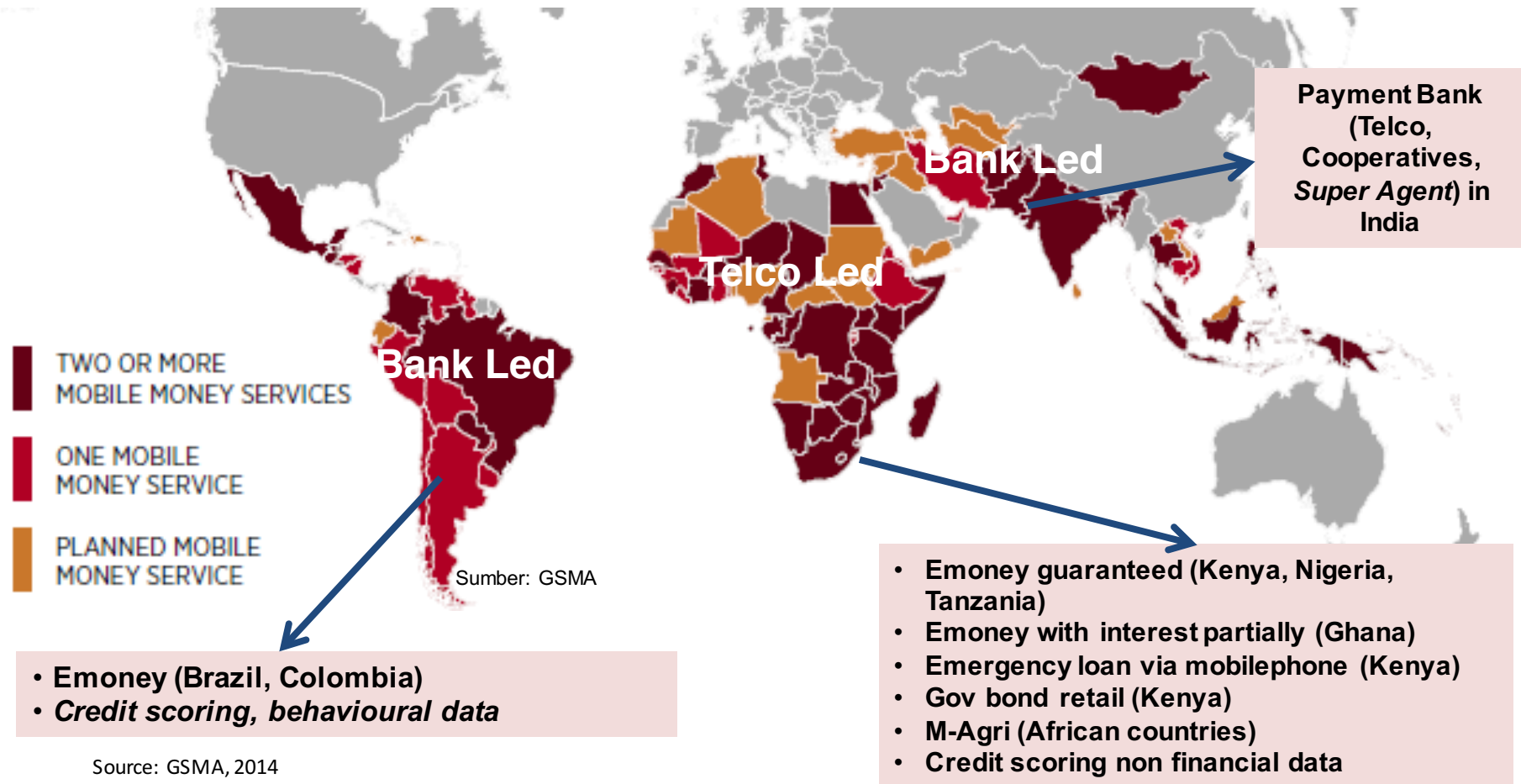
Fintech & digital banking



Digital Financial Inclusion

Digital financial services

- ❖ Focus on *unbanked*
- ❖ >219 live implementations in 84 countries
- ❖ Media : emoney / basic savings account





BANK INDONESIA'S STRATEGY



Digital Financial Inclusion

Guideline Principles

1 Customer Activation

What if :
We could turn a one day sign up process into less than 5 minute?

2 Distribution

What if:
Every one is a bank channel?

3 *Front-End*

What if:
Anyone with a phone could send or receive money?

4 *Back-End*

What if:
Financial transaction processing was digital and the cost close to zero cost?

5 Interconnection

What if:
You could send money to any person in the world or to other bank ?

6 Products

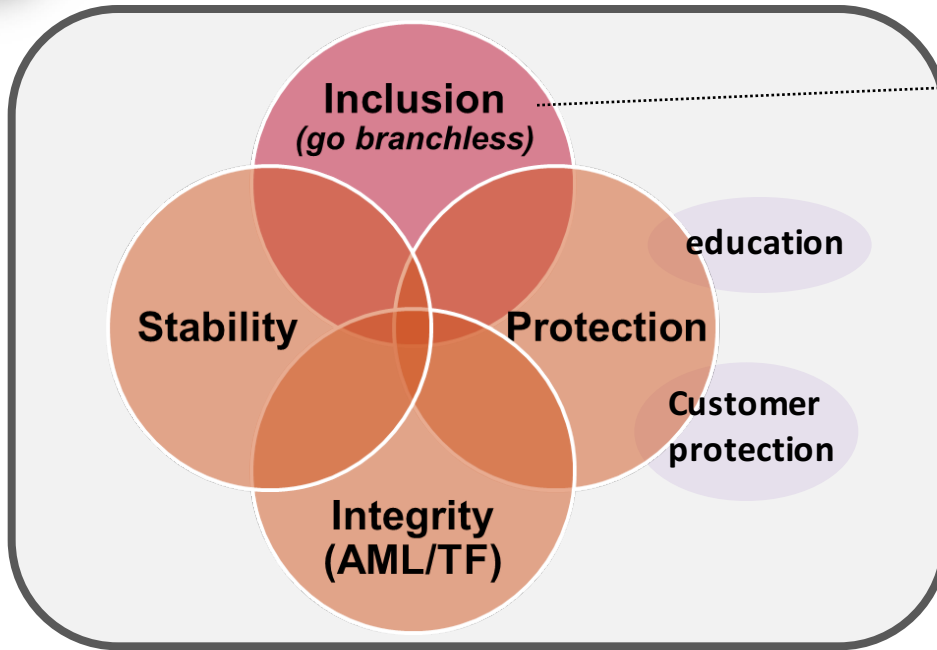
What if:
Every mobile phone came with a savings account and insurance?



Digital Financial Inclusion

Framework

Financial Inclusion



Digital Financial Services (DFS)

Financial Stability

- RISK

Money Laundering Risk

Liquidity & Solvency Risk of providers to Financial System Stability

Risk of Losing Consumer Money

+ ACCESS

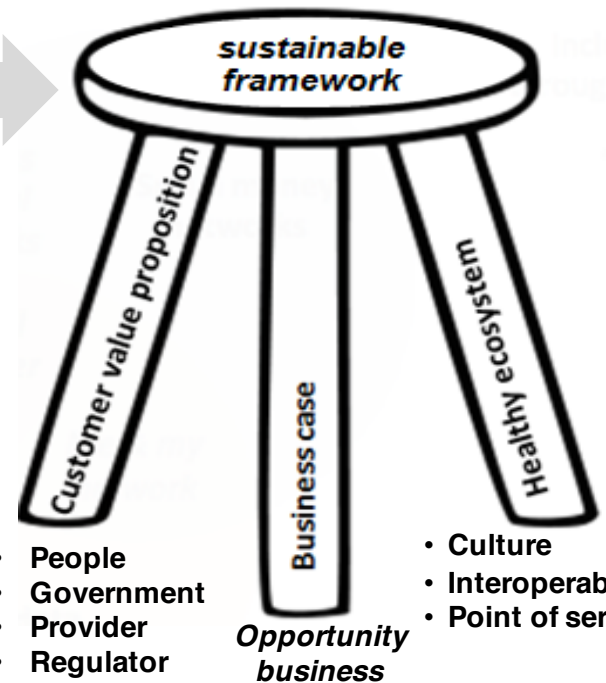
Provide easy facility for account opening

Leverage from the existing retailer infrastructure

Benefit for macroeconomy

BALANCING REGULATION

MONITORING & SUPERVISION

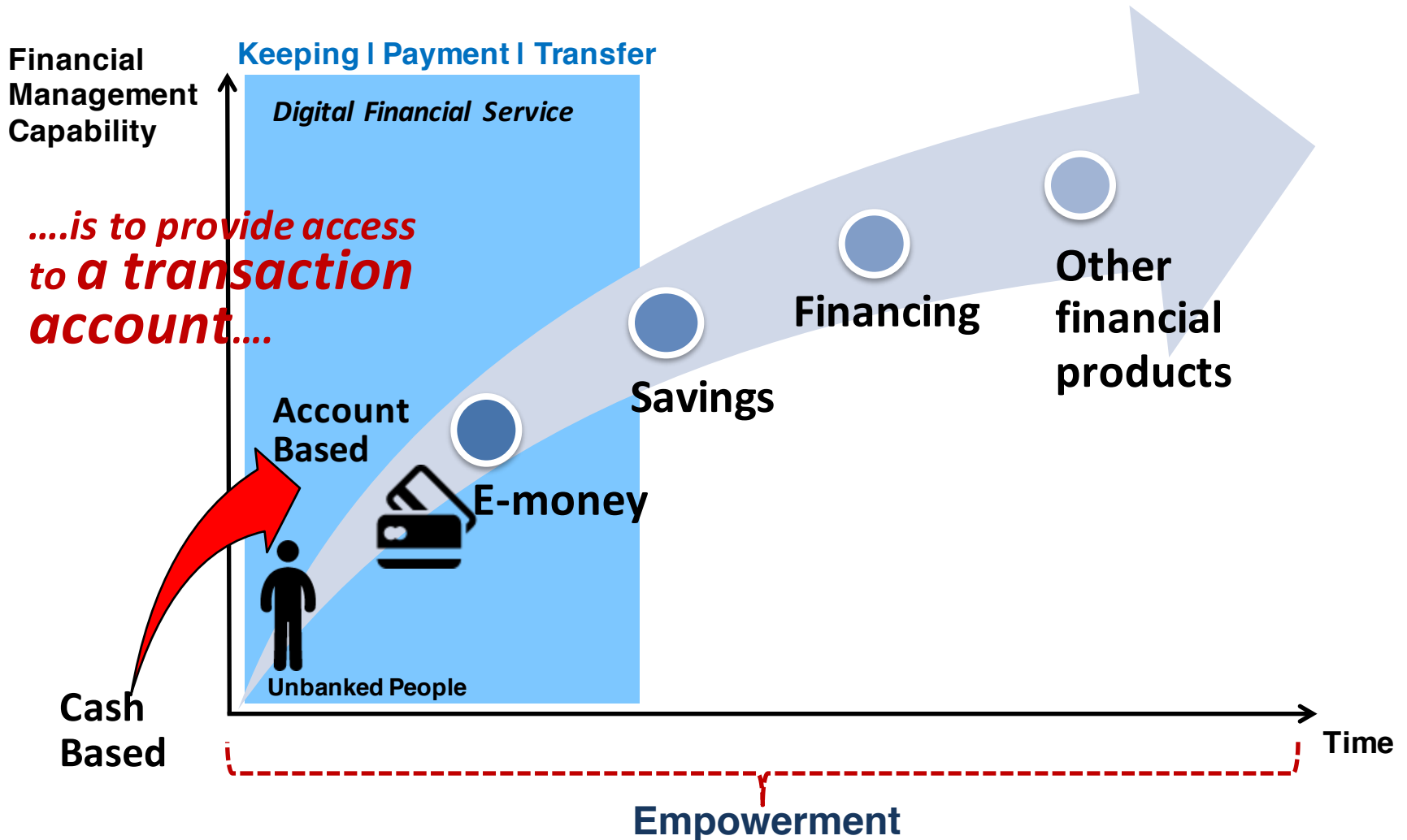


Source : Porteous, 2014



Digital Financial Inclusion

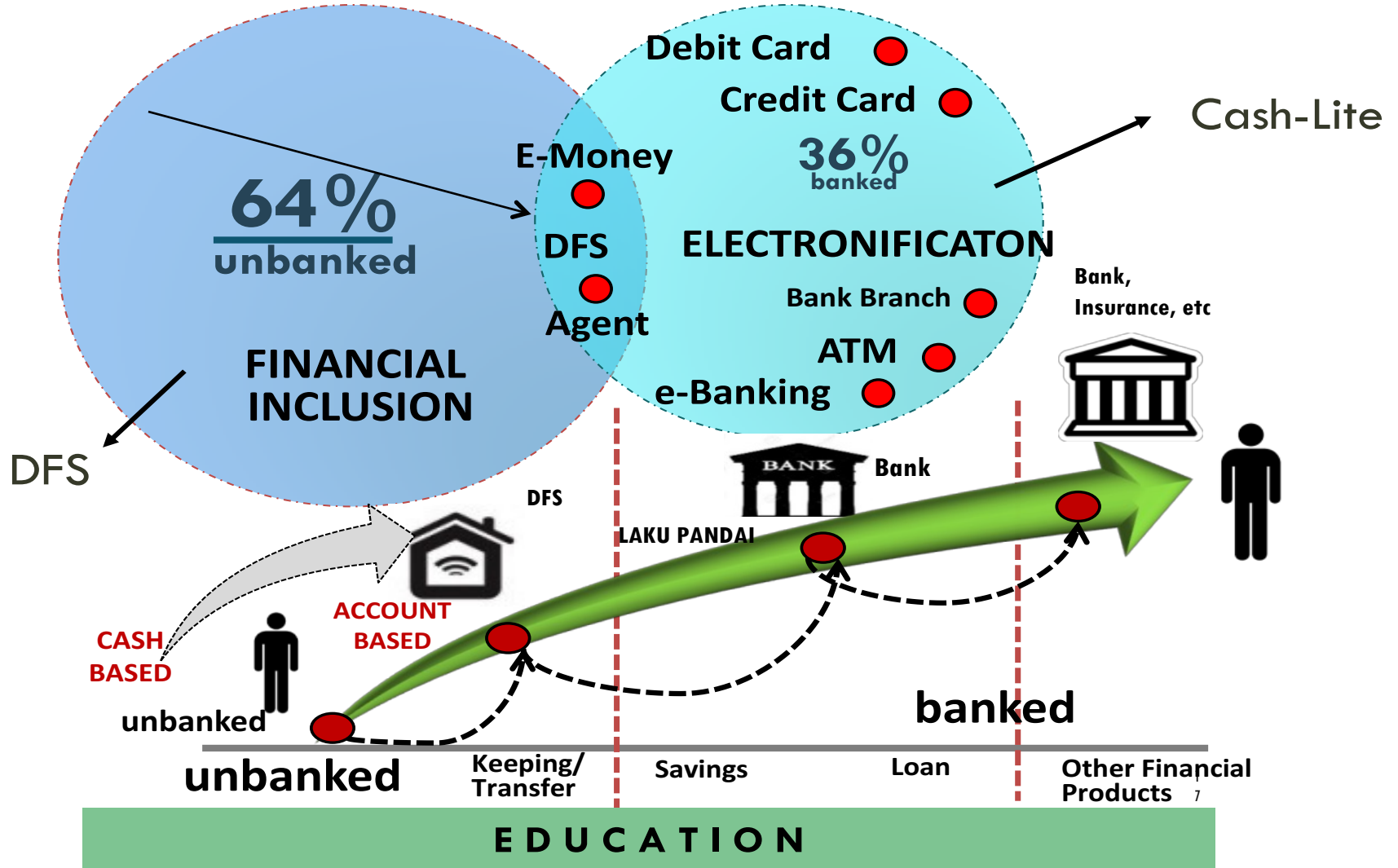
Learn Non Cash of daily Financial Transaction





Strategy

Dual Strategy : Infrastructure & Ecosystem

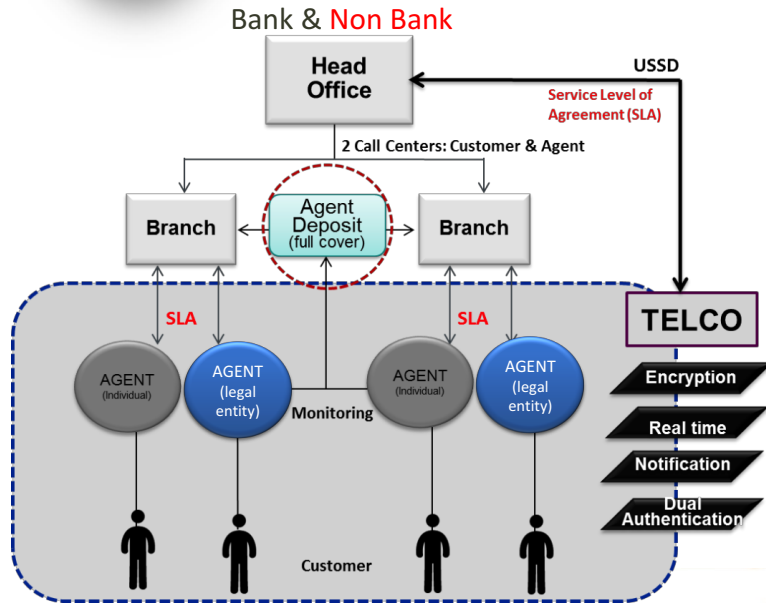




Strategy 1

INFRASTRUCTURE : DFS

is **payment and financial services** that are provided by electronic money issuer (Bank/Non Bank) with the collaboration with **third parties (agents)** and using **technologies**.



Electronic Money
(server Based)



Agent:

1. Local people/legal entity business
2. Have business activity in permanent place
3. Pass the fit and proper test
4. Pass training program
5. Deposited fund

Agent Services:

1. Facilitating Open E-Money account
2. Keeping/Saving
3. Withdrawing fund
4. Bill Payment
5. G2P Cash out



Strategy 2

Ecosystem

ELECTRONIFICATION : CASHLITE POLICY

	Government	Private Sector / Business	Individual / Person
Government	G2G Budget allocation Funding programs	G2B Grants, payment for goods and services	G2P Salaries, pensions Social protection
Private Sector / Business	B2G Taxes, fees, permits	B2B Payment for goods and services in value chain	B2P Salaries, Benefits
Development Organization	D2G Taxes	D2B Payment of goods and services	D2P Salaries, benefits Cash transfers
Individual / Person	P2G Taxes	P2B Purchases	P2P Remittances, gifts

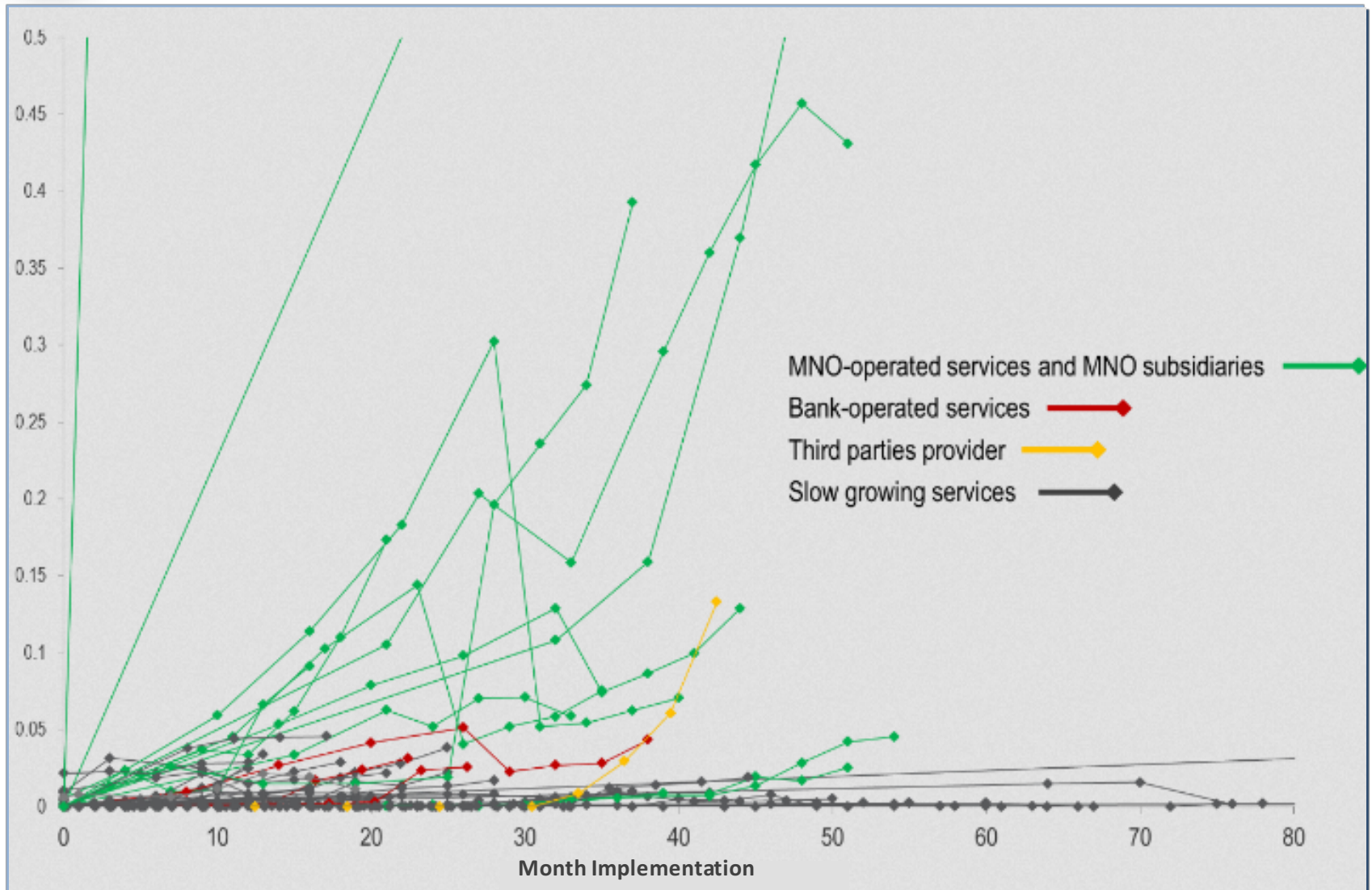


CHALLENGE AND GOING FORWARD



CHALLENGES

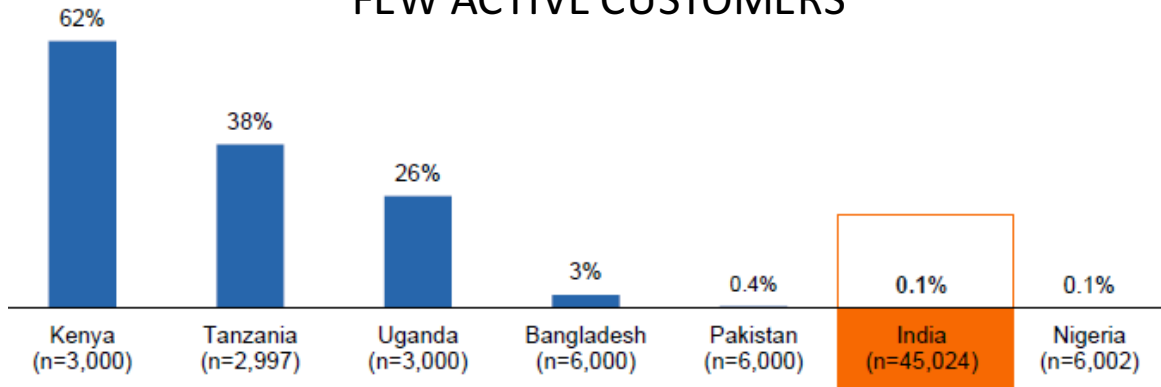
LESS 20% ARE SUCCESS





CHALLENGES

FEW ACTIVE CUSTOMERS



1. Inability to transact due to network down time
2. High charge of SMS/USSD
3. User interfaces is confusing and complex
4. Poor customer recourse
5. Insufficient agent liquidity
6. Nontransparent fees and other terms
7. Fraud
8. Inadequate data privacy and protection



A human center
design approach



PREREQUISITE

1

Sustainable Business Model. Need sustainable business model that combine the advantages characteristics of each involved parties.

2

Conductive Ecosystem. Need to build conducive ecosystem for sustainable DFS

3

Supportive and Proportional Regulation.

- The regulation should be proportional between goal & benefits for financial inclusion, risk, and positive development of the industries
- Regulation should accommodate the innovation.

4

Sufficient Infrastructure. Infrastructure, such as telecommunication network that evenly distributed across the region

5

Strong Coordination. Need coordination amongst stakeholders (BI, OJK, Ministries, industries, etc)

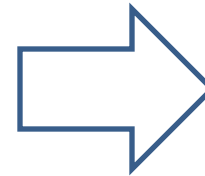
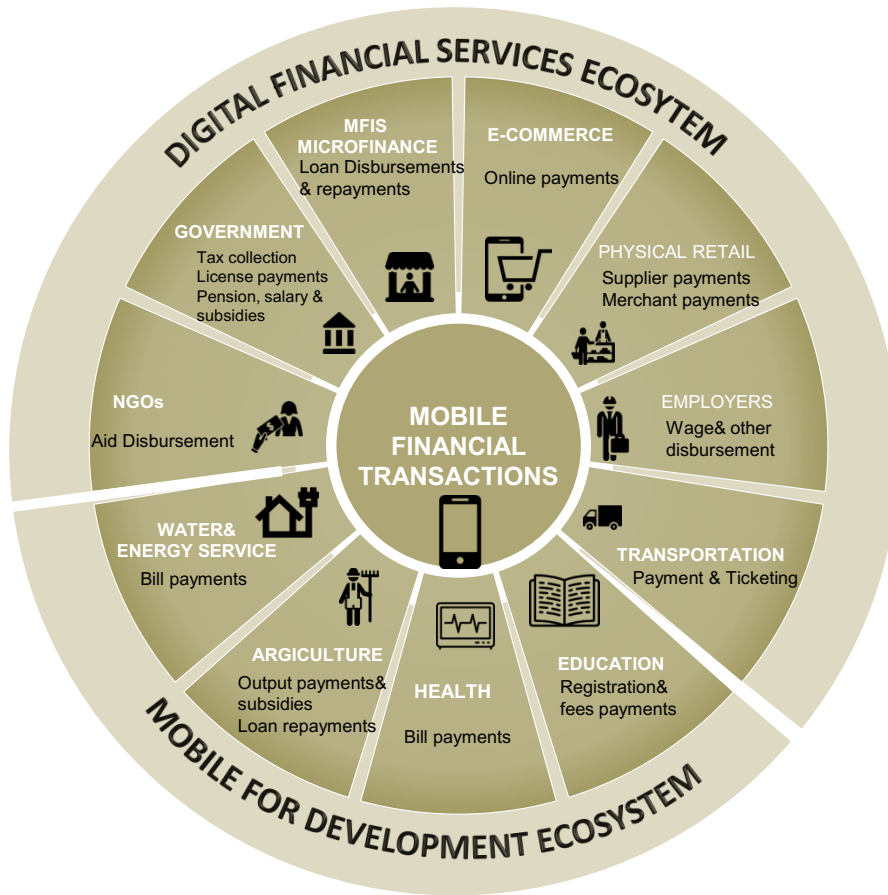
6

Education & National Campaign.

- Need continue education to change the habit of cash based transaction
- National campaign campaign for building awareness of people



FUTURE DIGITAL ECONOMY



DIGITAL ECONOMY INCLUSION





Thank You